30 YEARS
INTERMEDIATING
ASIA

The market report 2019 marks the second publication on the performance of Labuan International Business and Financial Centre (Labuan IBFC). This report provides key information to readers on Labuan IBFC’s market and trends to enable better understanding of the activities and business potentials as well as offerings of the Centre.

As the decade closes its curtain with 2019, Labuan IBFC maintained its reputation as one of the prominent international centres within Asia. This is a culmination of three-decades worth of forward-looking strategies, innovative measures and impactful action plans that have nurtured and evolved the Centre as we see it today.

The Centre was built on a strong foundation comprising a set of comprehensive modern legislation coupled with internationally conforming regulations that preserve market orderliness and stability. The regulatory requirements are continuously reviewed to ensure sufficiency and practicality to preserve a market environment that is business facilitative and well-regulated. This balancing strategy is a key feature that appealed and attracted numerous internationally renowned financial institutions and multinational groups to establish in Labuan IBFC.

Global investors are increasingly searching for credible and well-regulated financial centres supported by a network of professionals and intermediaries – and Labuan IBFC offers this exceptional combination. Its strategic geographical location as well as easy connectivity to Asia further create abundance of business opportunities for investors to take advantage of. For 2019, the market continued to record an encouraging growth in key business sectors, especially from the Far East countries.

Over the years, Labuan IBFC continued to enhance its visibility through supervisory and regulatory cooperation with peer regulators as well as in international events. 2019 was a landmark year as the Authority entered into three Memorandum of Understanding (MoU). The first MoU was with China Banking and Insurance Regulatory Commission; second was with the Financial Conduct Authority United Kingdom; and the third was with Nanjing Municipal Financial Regulatory Bureau. These MOU will further enhance the regulatory cooperation network that the Authority has with many other regulatory agencies.

Labuan IBFC remains vigilant in welcoming new business innovations and opportunities. This is evident with the influx of digital financial services revolutionising the conventional forms of financial offerings in the Centre. This segment has grown significantly over the last three years in tandem with Labuan IBFC’s aspiration to have the market to embrace digitalisation as the way forward in conducting business. Indeed, this market dynamic will further strengthen Labuan IBFC’s business footprint in Asia’s market and beyond.

The most significant and watershed event for 2019 was the implementation of the new Labuan IBFC tax framework. The Labuan tax framework that had been in place since the Centre’s inception in 1990, has undergone fundamental policy shifts in order to comply with The Organisation for Economic Co-operation and Development’s (OECD) international tax standards. The removal of the RM20,000 tax option and ring-fencing elements as well as introduction of substance requirements are the salient changes to institute a more sustainable tax regime to enhance the Centre’s economic contribution to Labuan and the nation.

With the new Labuan tax framework, Labuan IBFC is conforming with internationally acceptable tax practices.

The year 2020 started off with a series of unexpected events which would have profound impact to the international market and businesses. Health crisis such as the outbreak of COVID-19 and the drop in oil prices have and will continue to negatively impact economies across Asia and other regions. A slowdown in commercial activities worldwide is expected. However, while these are emerging challenges at the start of the new decade, there are always opportunities to be reaped in the international business landscape. The Authority will continue to scan the business environment and facilitate the Centre to be proactively anticipative and agile in intermediating Asia’s demands.
LABUAN IBFC PRODUCNTS & SERVICES

COMPUTIES
- Trading
- Investment holding

BANKING
- Commercial banking
- Investment banking

INSURANCE
- Direct insurance
- Reinsurance
- Insurance broking
- Captive insurance
- Underwriting and insurance manager

LEASING
- Big-ticket items including aircrafts, ships and support vessels
- Specialised plants, machineries and equipment

TRUST COMPANIES
- Corporate secretarial services
- Company administration
- Trustee services
- Custody services
- Accounting, tax and advisory services

WEALTH MANAGEMENT
- Trust
- Foundation
- Family office

CAPITAL MARKET
- Private and public funds
- Fund management
- Securities licensee business
- Fund administration
- Exchange

DIGITAL MARKET
- Money broking
- Credit token
- Payment system

COMMODITY TRADING
- Petroleum and petroleum-related products and LNG
- Agriculture
- Base minerals
- Chemicals
- Refined raw materials

CAN BE IN THE FORM OF CONVENTIONAL OR ISLAMIC
HIGHLIGHTS OF THE YEAR

981
2.1%
New incorporations
Growth in operating entities

58.8%
Labuan companies originated from Asia and the Pacific

Implementation of new tax framework for Labuan IBFC

26.9%
Increase in banking profitability

55%
Out-out banking and insurance business

Substance requirements pushed demand for office space and talent

43.7%
Increase in insurance profitability

28
Licences approved for Digital Financial Services

6,000
Employment in Labuan IBFC

A PREFERRED CHOICE OF JURISDICTION FOR ASIAN COMPANIES

BEST ASIAN DOMICILE AWARD FOR CAPTIVE

Generally, the sector remained financially strong with positive liquidity and increased profitability. This can be attributable to their business diversification beyond Malaysia and the shift towards more fee-based services.

In 2019, five international banking institutions established their presence in the Labuan market. This is a milestone for Labuan IBFC as two of the new entrants were permitted to offer digital banking services. This reflects the trend of Labuan banking sector in embracing digital advancements.
MARKET REPORT 2019

NUMBER OF BANKS

59

Commercial Banks: 40
Investment Banks: 19

5. Total assets reduced by 8% to USD50.6 billion, due to lower financing extended.

6. With the implementation of new tax policy, the banks have rationalised their loan portfolios by reducing resident financing.

7. For 2020, the sector’s growth is expected to continue to be positive supported by new banking establishments.

TOTAL ASSETS (In USD Billion)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Assets</th>
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<tbody>
<tr>
<td>2019</td>
<td>50.6</td>
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<tr>
<td>2018</td>
<td>55</td>
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<tr>
<td>2017</td>
<td>50.7</td>
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<tr>
<td>2016</td>
<td>51</td>
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<tr>
<td>2015</td>
<td>47.4</td>
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SOURCES AND USES OF FUNDS

**SOURCES**

- Amount due to financial institutions/interbank borrowings: 71.1%
- Deposits: 15.7%
- Others: 13.2%

**USES**

- Loans and advances: 50.7%
- Balances due from head offices/branches: 33.4%
- Investments: 6.7%
- Cash and short-term funds: 6.6%
- Others: 2.6%

8. Borrowings from head offices and financial institutions remained the key sources of funding for Labuan banks, amounting to USD35.9 billion or 71.1%.

9. Five new banking licences were granted, comprising one commercial bank and four investment banks.

10. One investment bank surrendered its licence.
Financing to all major sectors declined aside for real estate and property which grew by 22.2% for lendings to non-resident borrowers mainly to fund commercial and residential projects in the United Kingdom, Australia and Vietnam.

The total loan portfolios contracted by 22.7% to USD25.6 billion with non-resident customers contributing 66.9% of the total loans.

The total customer deposits declined by 16.5% to USD8 billion due to resident depositors’ withdrawal upon loan settlements. Deposits from non-residents were USD4.4 billion or 54.7% of the total deposits.
**MARKET REPORT 2019**

**BY ORIGIN OF BORROWERS**

- **ASIA & THE PACIFIC**: 66.5%
- **EUROPE**: 18.9%
- **AMERICA**: 9.4%
- **FAR EAST**: 4.1%
- **MIDDLE EAST & AFRICA**: 1.1%

**BY LOAN EXPOSURES**

- **ASIA & THE PACIFIC**: 76.8%
  - Main Sectors: Manufacturing, Utilities, Transport and communication
- **EUROPE**: 14.4%
  - Main Sectors: Property, Financial services, Special purpose vehicles
- **AMERICA**: 3%
  - Main Sectors: Agriculture and forestry, Transport and communication, Utilities
- **MIDDLE EAST & AFRICA**: 1.7%
  - Main Sectors: Mining and quarrying, Utilities, Transport and communication
The banking sector employed 495 staff, mainly Malaysians.

**Malaysian** 90.5% 448 Employees

**Non-Malaysian** 9.5% 47 Employees

The banking sector’s profitability recorded an encouraging 26.9% growth to USD634.8 million due to lower non-interest expenses and net gain from reversal of provision, which in turn improved the industry’s return on assets from 0.9% to 1.3%.
Islamic banking assets declined to USD2.3 billion due to funds repatriated to head offices after settlement of financing by clients.

The total financing of the Labuan Islamic banks (including Islamic window operators) decreased by 29% to USD2 billion with non-resident customers accounted for 66.3%.

The total Islamic deposits decreased to USD67.3 million with non-residents contributing 94% of the total deposits.
Currently, the Centre hosts more than 200 (re)insurers and insurance intermediaries which are mainly involved in general reinsurance business. Aside from commercial insurance, the sector is complemented by captive insurance lines which are undertaken via unique risk management vehicles ranging from the conventional captive company structures to protected cell companies. Similar to the banking industry, Labuan insurance sector is beginning to catch up in the digital space as a new entrant was licensed to offer insurtech in the market.

During the year, the Labuan insurance industry remained resilient as it continued to show growth trends with higher profitability performance.
Ten new entities were approved comprising one general insurer, five captives, three brokers and one underwriting manager.

Seven entities surrendered their licences due to business decision.

Total market capitalisation strengthened by 4.4% to USD726.8 million.

The sector continued to be dominated by international players, contributing 69.3% of the total market capitalisation.

Total insurance assets grew by 9.8% to USD4.7 billion which was mainly attributable to higher investment in fixed deposits and money market instruments.

Fixed deposits and money market instruments remained as the largest asset portion of 24.3% or USD1.1 billion.
Total gross premiums moderated by 8.8% to USD1.5 billion mainly due to business rationalisation by affected (re)insurers for their international portfolios.

Foreign business contributed a larger share of 58.7% (USD893.6 million) while Malaysian business stood at 41.3% (USD629.5 million).

Fire sector remained the largest business line with 33.5% share or USD509.8 million worth of total gross premiums.
Net retention ratio increased to 65% mainly due to higher business retention in fire, motor and other classes.

Earned premium improved by 1.7% to USD1,003.1 million. Consequently, underwriting margin increased by 25.8% to USD121 million.

Net claims incurred remained stable with a slight increase of 0.5% to USD628.2 million. Contrastingly, management and commission expenses decreased by 4.3% to USD253.9 million.

As a result of improved underwriting performance and better cost management, the industry’s profitability inflated by 43.7% to USD190.5 million.
### Captive Business

Labuan IBFC is an ideal jurisdiction for the captive market with its business-friendly legal framework and wide range of captive structures, supported by a ready pool of reinsurers making up Labuan IBFC’s insurance industry ecosystem. The Labuan captive business continued its growth momentum with premiums increased by 14.2% to USD457.5 million, where 64.5% of the total premiums originated from international markets.

#### Distribution of Gross Premiums

**By Region**
- **Middle East & Africa**: 3.8%
- **America**: 0.2%

**By Sector**
- **Engineering**: 27.1%
  - USD 124.2 M
- **Fire**: 7.2%
  - USD 33 M
- **Other Classes - General Liability**: 32.5%
  - USD 148.6 M
- **Other Classes - Product Liability**: 6.7%
  - USD 30.8 M
- **Marine**: 3.7%
  - USD 17 M
- **Motor**: 0.3%
  - USD 1.1 M
- **Other Classes**: 22.5%
  - USD 103 M

Premium growth was mainly driven by Engineering and Other Classes with market share of 27.1% and 61.7%, respectively:
- Engineering Class - 25.9% growth to USD124.2 million; and
- Other Classes - 14.7% growth to USD282.4 million.
Captives on the Rise

Captives have grown to be a prominent form of risk management tool and have been widely accepted in the American and European region. However, the Asian market for captive insurance is considered to be relatively new and its potentials have not been fully realised. With 40% of Fortune 500 companies being headquartered in Asia, of this, only 6% have captive structures.

While many companies are still dependent on traditional insurance, the commercial premium rates can be costly. As such, there are increasing opportunities for captives to be used as a cost-effective risk management vehicle. With the heightened realisation on innovative way of managing risk exposures, captives can be a viable risk transfer solution. This is certainly a strong business case for captives to grow in Asia.

Currently, there are close to 7,000 captives worldwide and most captives were formed in jurisdictions with facilitative captive ecosystem and legislation. In Asia, Labuan IBFC is recognised as a captive domicile of choice. It has the highest growth rate for new captive establishment in the region, and it was the second largest market in Asia with 52 captives.

Labuan IBFC’s prominence as a captive market was well-recognised in the region. This was evidenced from the recognition it received from the Asia Captive Review Awards and the China Offshore Awards for two consecutive years in 2018 and 2019. So, for risk managers and corporations in search of a viable captive market in Asia, Labuan IBFC offers solid propositions for establishing captives.

AN EXPANDING CAPTIVE JURISDICTION IN ASIA

Labuan IBFC: An Ideal Base for Captive Growth

There are numerous factors that led to the growth momentum of Labuan captives and the key ones are:

GROWING AWARENESS

The awareness on the benefits of using captives has heightened. This had captured higher interests from Asian multinational companies and medium-sized companies which are looking for more modern and flexible way to manage their insurance risks.

SHARIAH-COMPLIANT

Aside from conventional insurance, Labuan IBFC offers Islamic solutions via takaful captives for businesses preferring shariah-compliant approach to risk management.

COST-EFFECTIVE STRUCTURE

The Centre offers different captive structures ranging from those which are normal standalone company captives to protected cell companies with flexibility of creating multiple business cells.

Risk owners do not just have the option to set up their own vehicles via pure captives; but they can also rent captive via subsidiary-rent-a-captive structure. This provides cost-effective self-insurance options for businesses to select based on their risk appetite.
A total of 421 new investment-linked policies were issued with premiums amounting to USD6.5 million.

The total number of policies in force decreased by 33.7% to 1,582.

The total premium placements by the Labuan insurance brokers decreased by 13.9% to USD758.9 million. The general insurance business contributed 82.6% of the total premiums placed, mainly derived from international market.

The brokerage fees earned by the Labuan insurance brokers declined slightly by 2.2% to USD46.9 million.
(RE)TAKAFUL BUSINESS

TOTAL GROSS CONTRIBUTIONS (In USD Million)

2019
- 23 (Malaysian Business)
- 27.6 (Total)

2018
- 24.5 (Malaysian Business)
- 77.4 (Total)

2017
- 20 (Malaysian Business)
- 71.9 (Total)

2016
- 12 (Malaysian Business)
- 42.7 (Total)

2015
- 10.7 (Malaysian Business)
- 44.6 (Total)

The total gross contributions declined slightly by 1.3% to USD100.6 million. Motor sector remained the highest contributor at 55% or USD55.3 million.

The insurance sector comprised 1,040 workforce, which grew by 13.2% and majority were Malaysian.

- Malaysian: 80%
  - 832 Employees
- Non-Malaysian: 20%
  - 208 Employees
In 2019, Labuan IBFC continued to see a mixture of market expansion and also consolidation in the trust companies sector. There were five new trust companies in 2019 and one LTC had merged with a Hong Kong service provider to enhance effectiveness in servicing prospects from China.
Five new LTCs were approved comprising four managed trust companies and one full-fledged trust company. This resulted in an increase of 5.2% in total number of LTCs to 61.

Total income increased by 37.4% to USD36 million due to investment income gained from sale of a LTC subsidiary’s shares, hence increase in 123.8% of the sector’s profitability to USD18.8 million.

With the exception of the one-off gain on investment, the total income was mainly derived from secretarial and administrative fees. In addition, income from advisory services has also recorded significant increase by 242.2% due to more consultations rendered to clients during the transition period of substance policy implementation.
Incorporation of Labuan companies continued to grow albeit at a slower pace compared to 2018. This can be attributable to the uncertainties arising from the rollout of substance regulations as similarly observed in other peer international financial centres. Notwithstanding this, the transparent, prescriptive approach undertaken by Labuan IBFC for its substance activity provided the needed assurance for prospects to commit to the Centre. This coupled with some business flexibilities provided have ensured that Labuan IBFC remains viable for new business setups looking to tap on the Asian market.

Labuan IBFC continued to attract multinational companies particularly from China, Japan and South Korea. This clearly reflects the Centre’s growing value propositions as a facilitative market to the various trade and investment flows for the Asian economies. Enhanced by its business-friendly approach while upholding market stability and orderliness, Labuan IBFC remains as one of the preferred markets of choice for international prospects from Asia and beyond.
Total registered companies grew by 6.4% to 16,241 with 981 new companies incorporated in 2019.

New companies incorporated were mainly from Malaysia, China and Japan which contributed 32.9%, 10.6% and 7.8%, respectively.

Companies incorporated from Taiwan and China continue to increase over the past three years and recorded 33.3% and 20.9% growth in 2019, respectively.
Creating a More Substantive Labuan IBFC

Malaysia, including Labuan, being a member of The Organisation for Economic Cooperation and Development (OECD) Forum of Harmful Tax Practices (FHTP) Inclusive Framework, has pledged commitment to comply with the Base Erosion Profit Shifting (BEPS) minimum standards particularly BEPS Action 5.

The adhering to BEP’s Action 5 entails the following measures:

**Counter Harmful Tax Practices**

1. Identifying preferential regimes with harmful tax practices
2. Improving tax transparency through the exchange of information
3. Requirement for substantial activities

**Prevent Treaty Abuse**

Measures to avoid treaty shopping activities

**Dispute Resolution**

To ensure any tax-related disputes be resolved between treaty partners effectively

**BEPS**

In the case of Labuan IBFC, elements of harmful tax practices such as ring-fencing and lack of substantial requirements were identified and must be resolved by the jurisdiction. These were addressed with the introduction of the new tax framework and substance regulations in December 2018 that came into effect on 1 January 2019.

The key changes to the Labuan Tax Framework include the following:

- Removal of the RM20,000 tax election; Labuan entities are taxed at 3% of audited profits;
- Removal of ring-fencing elements pertaining to dealing with residents and in ringgit Malaysia; and
- Prescribed Labuan entities to fulfil substantial requirements to qualify for Labuan Business Activities Tax Act (LBATA)'s tax incentives by having full-time employees and annual operating expenditure.

The need for the taxation changes, particularly the substance requirements is not unique to only Malaysia and Labuan but also applicable to more than 170 jurisdictions all over the world. Labuan IBFC has adopted the prescriptive approach in specifying its substance regulations:

- The minimum number of full-time workforce to be engaged; and
- The minimum amount of operating expenditure to be spent in the Centre.

The prescribed substance requirements vary according to the type of activity that is conducted by the Labuan entity. Generally, this approach is adopted to provide clear certainty on the number and amount to be adhered to.
With the introduction of the new tax framework including substance requirements, Labuan is now recognised as not harmful by the OECD. However, as in any new changes, there were implementation issues and clarity needed on the new policies. In this regard, other than townhall sessions, the Government has formed the Labuan Investment Committee (LIC), comprising representatives from the Ministry of Finance, Inland Revenue Board and Labuan FSA to hear issues and provide guidance to the Labuan IBFC industry players on the new regulations. A series of LIC meetings have been held and the LIC has also invited representatives from the industries to make presentations on issues and concerns as well as suggestions to make the framework more robust and sustainable. Indeed, over the course of the year, the LIC has made pronouncements on some clarifications to the tax framework. With such collaboration between the agencies and the market, substance requirements have been rolled out without any major disruption to the Centre during the transition year.

To facilitate the market’s further understanding on the new substance requirements, subsequent briefings were conducted on additional new rulings and how these work for the different businesses. In addition, the dedicated help desk established in 2019 has also provided practical advice for industry players in effecting substance for their businesses. Similarly, the frequently-asked-questions (FAQs) published on Labuan IBFC website provide good reference to the industry players.

The substance requirements policy is a “game-changer” to Labuan IBFC. Shifting away from paper structures, the Authority had observed encouraging spin-off growth in the Island’s economy as Labuan entities increased and strengthened their business presence. This included:

- greater employment opportunities offered by the Labuan entities which is expected to further inflate the existing 6,000 work-force;
- higher demand for office and dwelling places as well as ancillary amenities such as internet facilities. This is evident with the setting up of 98 new offices in the 1st half of 2019; and
- more job advertisements in the Labuan IBFC market.

Moving forward, the new tax framework will bring about more changes in the business and operating models of Labuan entities. Ultimately, the requirements, particularly the substance requirements will provide the impetus to more real economic growth for Labuan Island.
In addition, trade tensions and geopolitical risks continued to affect global oil market. The Brent crude oil price averaged about USD64 per barrel in 2019 as compared to USD71 in the prior year. The uncertainties in the oil and gas market had and would continue to exert downward pressure on the revenues of LITCs.
Four LITCs were approved, while eight licences were either surrendered or revoked, bringing the total number to 44.

Total revenue decreased by 6% to USD30.7 billion as prices for most petrochemical products traded have declined compared to 2018 due to oil and gas market downturn.

Consequently, profitability was impacted due to lower margin of income from USD1.5 billion to USD718.3 million.

Majority of the LITCs originated from Asia and the Pacific region, mainly from Malaysia and Singapore. The remaining 15.9% were from Far East (9.1%), Middle East and Africa (4.5%) and Europe (2.3%).

The LITCs employed 669 staff comprising 644 Malaysians and 25 non-Malaysians. Of this total, 58 are professional traders.
Labuan leasing companies were adapting to the new requirements. During the year, Labuan leasing companies have restructured their businesses to meet the substantial requirements imposed. This business rationalisation had resulted in reduction in the number of Labuan leasing companies in 2019.

Labuan leasing remains as a popular structure of choice amongst international leasing players especially for the oil and gas and aviation sectors. Nonetheless, the sector’s growth pace was affected by the implementation of substance policy as part of the new Labuan tax framework which took effect in January 2019.
Nine new leasing companies were approved, mainly for oil and gas sector.

86 companies surrendered their licences due to completion of leasing contracts and business rationalisation.

Consequently, the total industry leased assets declined by 16.1% to USD45.1 billion. Oil and gas and aviation sectors remained the two key contributors of 60.5% and 38.5% of the total assets, respectively.

107 approvals were granted for subsequent leasing transactions, of which majority were for aircraft leasing.

82.3% of the Labuan leasing companies originated from Asia and the Pacific region. The remaining 17.7% were from America (8.2%), Europe (5.8%), Far East (3%) and Middle East and Africa (0.7%).
Labuan IBFC continued to attract affluent investors through its complete suite of wealth management offerings. Riding on the growing trends of High Net Worth Individuals (HNWIs), the number of investment vehicles registered continued to increase. Labuan IBFC offers a choice of investment vehicles of either Common Law’s trust vehicles or Civil Law’s foundation structures. In addition, these investment platforms can be established under the Labuan conventional laws or shariah compliant requirements based on the preference of prospects.
Registration of new foundations increased by 36.8% to 52. During the year, 25 foundations were deregistered while three were reactivated, bringing the total to 192.

The sector comprised 184 conventional foundations and eight shariah-compliant ones. Of the total 192 foundations, 163 were established for non-charitable purposes.

The number of registered trusts remained unchanged at 14, comprising five Labuan purpose trusts, three charitable trusts, two protective trusts and four private beneficiary trusts.
Labuan IBFC permitted digital financial services (DFS) to be established in the Centre within the regulatory ambit of the existing array of business licences. Unlike some other jurisdictions, Labuan IBFC does not have sandbox business operating environment. This approach is more practical and cost-effective as it allows DFS businesses to operate in the actual market instead of in an artificially created business environment. Since the introduction of DFS in 2018, there has been an influx of digital setups ranging from digital banking, insurtech to digital-based intermediaries in Labuan IBFC.
To complement the Malaysia’s Fintech initiatives for the domestic market, Labuan IBFC’s DFS are geared for the out-of-market to meet regional demands. Whilst the Authority supports DFS growth and expansion, it is imperative that these businesses are viable and have proper market conduct practices. Towards this end, the Authority had released for market feedback the proposed regulatory framework to govern the licensing and business conduct of DFS. The DFS regulatory framework is expected to be finalised for implementation in 2020.

- 28 licences were approved for DFS business, while two approvals were null and void, bringing the total number to 34.
- Out of the total, majority were licensed to provide digital currency trading platform and e-payment system.

Money broking business in Labuan IBFC continued to gain traction especially as digital assets continued to grow in prominence in the international market. Most of the new money broking setups offer online platforms for their clients to trade e-currencies.

- 26 new money brokers were approved during the year. One approval was null and void while one surrendered, bringing the total number to 59.
- Out of the total, 15 were engaged in DFS business.
- More than 60% of Labuan money brokers originated from Asia, mainly from Japan, Singapore, Hong Kong, Korea and Malaysia.
LABUAN IBFC’S CAPITAL MARKET COMPRISED A NUMBER OF CAPITAL MARKET INTERMEDIARIES LICENSED BY THE AUTHORITY. THESE INCLUDE FUND MANAGERS, FUND ADMINISTRATORS, CUSTODIANS AND SECURITIES LICENSEES, PROVIDING THE ECOSYSTEM FOR INTERNATIONAL INVESTMENTS AND FUND SETUPS IN THE CENTRE.
Seven new fund managers were approved and two licences were either surrendered or null and void, bringing the total number to 24.

54.1% of the fund managers were originated from the Asia and the Pacific region, mainly from Singapore and Malaysia.

The remaining 45.9% of fund managers were from Europe (16.7%), America (16.7%) and Far East (12.5%).

Three new securities licensees were granted while two surrendered their licences, bringing the total number to 11.

63.6% or seven of the securities licensees were originated from Asia and the Pacific region while the remaining from Europe and Far East.

Total number of private funds remained at 62 with total approved funds size stood at USD13.1 billion.
EXCHANGE
LABUAN INTERNATIONAL FINANCIAL EXCHANGE

The Labuan International Financial Exchange (LFX) operates as a full-fledged international exchange to facilitate the listing and trading of financial instruments via Labuan IBFC. Being an international exchange with a robust and facilitative regulatory framework in ASEAN, LFX serves as the platform for investors to subscribe for Asian capital market instruments. The LFX listings can comprise equities, investment funds, debt instruments and other types of financial instruments. These can be conventional listed instruments or those which are shariah-compliant.

NUMBERS OF ACTIVE LISTINGS

MARKET CAPITALISATION (In USD Billion)

- In 2019, LFX recorded four new listings while six instruments were delisted upon maturity, bringing the total listings to 28. During the year, Islamic listings remained unchanged at 11.
- Four new listings worth USD1.3 billion in aggregate were raised through primary issuance for financial and energy businesses.
- The total market capitalisation declined by 14.4% to USD20.8 billion. Of the total, 36% or USD7.5 billion were sukuk issuance.

FUSANG EXCHANGE

Apart from LFX, in 2018 Labuan FSA has also approved Fusang Exchange as a digital exchange. Fusang Exchange is expected to be fully operational in 2020 to tap on the listing and trading of digital assets in the regional and global market.

The Exchange will offer primary listing of digital securities such as equities, bonds, derivatives, funds and alternative asset classes of real estates. In addition, it will also allow secondary market trading of security tokens, crypto and fiat currencies.
The post financial crisis of 2008-2009 had set a wake of re-regulations and rule tightening across the globe over the last decade. It is a common phenomenon across jurisdictions for both onshore and offshore markets as higher prudential and anti-money laundering measures were frantically adopted to meet the expectations of the international standard setting bodies. Just like other international financial centres, Labuan IBFC was not spared from such pursuit. In fact, the conformity became a necessity to ensure the Centre can integrate within the larger regional business canvas.

The challenge for Labuan IBFC was to maintain an appropriate balance between nurturing business growth whilst embracing the deluge of international standards and acceptable regulations as well as best practices. The Authority subscribes to three key principles to achieve and maintain this aspired balancing act:

- **Adaptability** - the ability to mould the international standards to suit the Centre’s own local context, as it would be highly impractical to adopt “lock-stock-and-barrel” worth of international rules and expecting these to be a perfect fit to the local market.

- **Comparability** – to benchmark appropriately and picking up on commonalities of different jurisdictions’ regulatory approach vis-à-vis the Centre’s own features and circumstances. After all, no one market is identical to another.

- **Proportionality** – to be able to discern the differing characteristics of the various business segments within the Centre so as to ensure regulations are fit-for-purpose and commensurate with their risk profiles.

Of the above tenets, the last can be regarded as the most critical but most difficult to effect as proportionality regulation-setting is more of an art than science. For the Authority, there are few factors which are taken into consideration when effecting proportionality as depicted below:

### PROPORTIONALITY FROM RISK PERSPECTIVE

- Relates to effecting the regulatory extent and intensity to individual business segments that commensurate with the systemic risks that they pose to the overall market.

- High regulations are expected for business lines that are characterised by large business size and volume relative to other segments.

### PROPORTIONALITY FROM DEVELOPMENTAL PERSPECTIVE

- Pertains to having the right tone of regulations to pace the development of a business segment.

- An emerging business segment would require less intrusive requirements which are more business nurturing so as not to nip the growth potentials untimely at the outset. Contrastingly, for well-matured business segments, a full set of regulations is a necessity and befitting so as to preserve market orderliness.

### PROPORTIONALITY FROM SUPERVISORY PERSPECTIVE

- Infers to effecting the appropriate kind of regulations to match the supervisory appetite and capabilities of the Authority.

- As supervisory resources are often finite and limited, the styling of regulations would often be those that promote self-monitored compliance by the market.

- Requirements set would also be principle-based driven to enable the market to effect them directly to suit their own respective business models and operations.

As regulatory setting is an evolutionary process, the Authority would always assess its approach to ensure appropriateness vis-à-vis the growth development and maturity of the overall market. For Labuan IBFC, what is paramount is not the volume and speed of regulations issued, but rather the right rules are rolled out to the right market segments at the right time.
Despite the shifting business dynamics, Labuan IBFC remains agile and tactful in adopting to the new norms. To maintain the upbeat momentum, the Authority continued to identify strategic measures, aimed at invigorating further the businesses and ecosystem of Labuan IBFC as well as revitalising identified market sectors to maximise their growth potentials.

To move towards this, the following key initiatives would be undertaken for 2020:

1. **Enhancing vibrancy in banking sector**
   Labuan banking has been one of the driving sectors for the Centre, but its growth has moderated over the years. There is a need for more diversity such as players, products and services in the sector. As such, to promote vibrancy, there will greater encouragement for new banking entrants via:
   - Targeting prospects on strong brands amongst banking and financial community; and
   - Promoting innovative banking propositions in the sector such as digital banking, investment banking and trade finance.

2. **Embracing Fintech wave via promotion of digital financial solutions**
   To expand the digital financial space in the Centre, an appropriate set of licensing and regulatory requirements would be established as the digital asset framework. The framework is intended to ensure suitable applicants being permitted to undertake Labuan Digital Financial Services (DFS) and the minimum safeguards for these businesses to operate soundly in the Centre. In addition, efforts would also be made towards creating a conducive eco-system for DFS which include ensuring that the regulations are adequate and proportionate to govern the DFS activities.

3. **Reinvigorating identified sectors and promoting those with growth potentials**
   Market sectors with modest but strong potential growth are being identified for review in order to push the underlying driving factors. This includes the wealth management market and other smaller financial sectors such as private funds. Initiatives include rationalising the approval process to allow for more seamless conduct of business.
For sectors that have been earmarked to have growth potentials, more regulatory facilitation and impetus would be accorded to intensify their market development. This may include creation of new intermediary licences especially in the insurance market space.

4. **Fostering greater cross-border collaboration with regulatory authorities**

As Labuan IBFC remains mainly a host market, efforts will be continued to have closer ties with regulatory authorities of home jurisdictions to enhance cross-border supervisory and regulatory monitoring for international business setups.

5. **Reinforcing the Authority’s regulatory and supervisory role**

Recognising the changing market landscape, it is imperative that the Authority evolves in tandem by:

- Continuing to upscale the internal talents of key functions so as to be able to keep up with the business dynamics;
- Enhancing the governance processes and decision making to ensure culture of integrity and professionalism continue to permeate throughout the organisation; and
- Using more digitisation to improve information management and enhance efficiency.

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The global situations including economic uncertainty, trade war, depressed oil prices, and COVID-19 pandemic would certainly pose great challenges to the financial world in year 2020, Labuan IBFC included. Labuan FSA would need to be ever vigilant in implementing business strategies and policies as well as work with the industry players to provide appropriate flexibility to accommodate business and market during this difficult period.

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**STRATEGIES 2020: EXPANDING AND MODERNISING LABUAN IBFC**

- **ENHANCING BANKING VIBRANCY**
  - Target prospecting
  - Innovative banking propositions

- **EMBRACING DIGITAL DRIVEN BUSINESS**
  - Enhancing licensing requirements
  - Providing digital-conducive ecosystem
  - Strengthening relevant regulations

- **REINVIGORATING LABUAN OFFERINGS**
  - Liberalising approval process
  - Reviewing existing products
  - Creating new business solutions
  - Expanding intermediary licences

- **FOSTERING CROSS-BORDER COLLABORATION**
  - Expanding home-host relationship for enhanced supervision of international groups
  - Facilitating business setups

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**REINFORCING ICT AND FACILITY INFRASTRUCTURE**

**EVOLVING ORGANISATIONAL GOVERNANCE**

**MANAGING HUMAN CAPITAL**

**ENHANCING REGULATORY AND SUPERVISORY ROLE**
The Labuan IBFC entered its 30th year milestone and for the last three decades, the Centre has contributed significantly to Labuan. Other than acting as a catalyst to spur the development of the Island’s infrastructure, amenities and economic activities, it also regularly conducts Corporate Social Responsibility (CSR) initiatives - Community Wellness, Education and Environment.

As in past years, in 2019, many community projects aimed to promote “better living” in Labuan Island had received strong support and endorsement in the form of sponsorships or volunteering from the industry players. One of the Centre’s focus for year 2019, was creating more awareness on health and wellness in the community. Several activities were carried out by the Centre in collaboration with the local government agencies and non-profit organisations. One was mental wellness awareness programme, which included public talks, health screenings and health fun run.

For building education, the Labuan industry players had contributed in numerous events via signature programmes such as motivational talks for underprivileged students. The industry players had also collaborated with higher learning institutions, including Universiti Malaysia Sabah, Labuan International Campus to groom and mentor talents in financial fields via practical or internship programmes. Career fairs had also been organised to impart to graduating students on career choices and business opportunities in the Labuan IBFC.

Recognising the importance of education in nation building, Labuan FSA as the Authority, has a major CSR role in managing the Labuan International School (LIS) for the benefit of the financial and local community of Labuan. The school is dedicated towards providing a culturally diverse learning environment, complemented by excellent educational academia and facilities. By implementing the school concept of “Mind, Body and Soul” enrichment, the LIS continues to provide all-round and high-quality education to the young people of Labuan.

In the area of environmental preservation, during 2019, Labuan IBFC continued contributing towards a clean living place for the community. This was reflected in the Centre’s support and participation in the ‘World Clean Up Day’ and in various beach cleaning efforts organised by non-profit organisations and local authorities. The Centre also actively promoted ‘Greener Environment’ by organising campaigns on ‘Zero Usage of Plastics’.

In living up the slogan, ‘Together We Build Labuan’, Labuan IBFC will continue its contributions towards the betterment of the Labuan community and the Island.
LABUAN, AN ISLAND WITH FASCINATING HISTORY

LABUAN, THE NAME OF THE ISLAND CAME FROM THE WORD ‘LABOHAN’ WHICH MEANS ANCHORAGE, A WORD SIGNIFIES A SAFE AND SECURE SEAPORT.  
A FLAT ISLAND OF 92KM² LOCATED AT THE NORTHWEST COAST OF BORNEO, LABUAN COMPRISSES SEVEN ISLANDS - LABUAN, KURAMAN, DAAT, RUSUKAN BESAR, RUSUKAN KECIL, PAPAN AND BURUNG.

Labuan has a glorious history linked with the various ruling empires in the region and all of them had left pieces of history behind.  
The Island boasts of rich cultural backgrounds and historical sites. The strategic location of Labuan and its sheltered port started to grow in potential as part of international route for ships. For centuries, it has been an established port.

The History: A Symbol Of Peace
Labuan, the final resting place of the heroes during World War II. The World War II Memorial is a beautifully landscaped memorial garden and is visited regularly by war veteran groups. The Peace Park and Surrender Point, a promise of peace and mankind which symbolises the renunciation of war.

An Archaeological Mystery
A tower of 32.5 meters high, the Chimney is made from more than 23,000 pieces of red bricks imported from England. The Chimney is believed to be linked to the coal mining days of Labuan but there were no traces of smokes or burning to suggest its usage as a chimney as popularly believed, hence the purpose of the chimney remains a mystery till today.
Meet the Local, Know the Culture

Kampung Air or Water Village is a beautiful floating village built on high stilts. It is an intricate network of houses connected by wooden walkways and hosts decades of old architecture, local lifestyle and culture.

The Adventure to Explore

Labuan Marine Park is blessed with pristine water and reefs which is a popular sight for snorkelling. Labuan is also an underwater paradise for scuba divers. There are four fascinating wrecks in the seas surround Labuan, making it a highly rated diving destination in the region.
LABUAN ISLAND KEY STATISTICS

**POPULATION**

People ('000)

- **Malaysia**: 32,382.3
- **Labuan**: 100.4

<table>
<thead>
<tr>
<th>By Sector</th>
<th>Resident</th>
<th>Non-Resident</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education Level</td>
<td>91%</td>
<td>9%</td>
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<tr>
<td>Ethnicity</td>
<td>84.9% Bumiputra</td>
<td>12.4% Chinese</td>
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**TOTAL POPULATION**

100,400

**GDP GROWTH**

6.6%

**SIZE OF LAND AREA**

92 km²

**GROSS DOMESTIC PRODUCT OF LABUAN**

(RM Million, At Constant 2015 Prices)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Market Share (%)</th>
<th>Growth (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial and Insurance, Real Estate and Business Services</td>
<td>51.9</td>
<td>8.3</td>
</tr>
<tr>
<td>Other Services</td>
<td>23.8</td>
<td>5.9</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>18.9</td>
<td>5.3</td>
</tr>
<tr>
<td>Construction</td>
<td>2.1</td>
<td>11.2</td>
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<tr>
<td>Agriculture</td>
<td>1.7</td>
<td>5.8</td>
</tr>
<tr>
<td>Import Duties</td>
<td>1.6</td>
<td>-19.9</td>
</tr>
</tbody>
</table>

**GDP Per Capital by State, at Current Prices**

- W.P. Kuala Lumpur
- W.P. Labuan
- Pulau Pinang
- Sarawak
- Selangor
- Melaka
- Negeri Sembilan
- Johor
- Pahang
- Perak
- Terengganu
- Sabah
- Perlis
- Kedah
- Kelantan

- Source: 2018 MyLocal Stats, Department of Statistics Malaysia
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